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Income Tax Law
of the
United States

Affecting

Non-Resident Aliens

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Guaranty Trust Company
of New York

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Income Tax Law

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G912

of the

United States

Act of September 8, 1916, as amended, and
Act of October 3, 1917

Including Summary of Provisions and Regulations
Affecting Non-Resident Alien Individuals,
Partnerships, Fiduciaries and Corporations

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FOREWORD

THE War Tax Law of October 3, 1917 has made many changes in the Income Tax Law of September 8, 1916.

This booklet has been prepared with the view of summarizing the provisions of the Income Tax Law and the regulations of the Treasury Department which are applicable to non-resident alien individuals, partnerships, fiduciaries and corporations.

The War Excess Profits Tax, which is in addition to the Income Tax, is not covered in this booklet. Our booklet "The War Excess Profits Tax Law" should be consulted for questions concerning this tax.

Owing to the fact that there are questions which are unsettled, changes in the regulations may be made which will affect statements contained in this pamphlet.

The officers of the Guaranty Trust Company of New York will be glad to give information relating to any questions not covered in this booklet or concerning any changes which are made by future regulations.

Guaranty Trust Company
of New York

March, 1918

RECORDED

Income Tax Law

of the

United States

**Summary of Provisions and Regulations affecting
Non-Resident Alien Individuals, Partnerships,
Fiduciaries and Corporations**

CHAPTER I

Rate of Tax

INDIVIDUALS

Non-resident alien individuals are subject to a normal income tax of two per centum upon the entire net income, as hereinafter described, derived from sources within the United States, not including dividends from stocks of corporations organized in the United States.

On net income in excess of \$5,000, including income from dividends on stock of corporations, which are taxable upon their net income under this law, and income on which the normal tax has been paid at the

source, an additional tax known as the surtax, shall be assessed at graduated rates, as follows:

\$5,000	to	\$7,500	1%
7,500	"	10,000	2%
10,000	"	12,500	3%
12,500	"	15,000	4%
15,000	"	20,000	5%
20,000	"	40,000	8%
40,000	"	60,000	12%
60,000	"	80,000	17%
80,000	"	100,000	22%
100,000	"	150,000	27%
150,000	"	200,000	31%
200,000	"	250,000	37%
250,000	"	300,000	42%
300,000	"	500,000	46%
500,000	"	750,000	50%
750,000	"	1,000,000	55%
1,000,000	"	1,500,000	61%
1,500,000	"	2,000,000	62%
On excess of 2,000,000			63%

The following example shows the assessment of the normal and additional tax:

"A," a non-resident alien individual has a net income amounting to \$18,000, including dividends of corporations, which are taxable upon their net income under this law, amounting to \$3,000; credit for excess profits tax assessed, \$1,000.

Tax Computation

Net income	\$18,000
Less credit for excess profits tax	1,000
Income subject to surtax	\$17,000
Less credit for dividends	3,000
Net income subject to normal tax	\$14,000
Amount of normal tax at 2% (levied under Act of September 8, 1916)	\$280

Amount subject to surtax:

Over \$5,000 and not over \$7,500,	\$2,500	1%	\$25
" \$7,500 " " " 10,000,	2,500	2%	50
" \$10,000 " " " 12,500,	2,500	3%	75
" \$12,500 " " " 15,000,	2,500	4%	100
" \$15,000 up to	17,000,	2,000	5% <u>100</u>
Total income tax (not including excess profits tax)			\$630

Credit shall be taken for any amount of tax which has been withheld at the source.

PARTNERSHIPS

Non-resident alien partnerships, as such, are not subject to the income tax but the net income of such partnerships derived from sources within the United States, whether distributed or not, payable to its individual members, must be returned by them as income and will be taxed the same as any other income received by an individual from sources within the United States.

For example, if a foreign partnership with two partners, having equal shares in the profits, has the following net income:

From business transacted in the United States	\$20,000
From interest on bonds of domestic corporations	6,000
From dividends on stocks of domestic corporations	<u>4,000</u>
The total net income of the partnership is	\$30,000
The share of each partner in the income is	\$15,000

The amount of \$15,000 will be reported by each partner in his individual return as his net share of the income of the partnership, entering separately the

amounts representing income from dividends, from interest on corporate bonds, and from other sources.

CORPORATIONS

On the net income of non-resident alien corporations, derived from sources within the United States, as hereinafter described, a tax of two per centum shall be assessed and paid, under the Act of September 8, 1916, as amended.

An additional tax of four per centum, known as the War Income Tax, is imposed on such net income of corporations, except that for the purpose of computing this additional tax, net income shall be credited with the amount of dividends received from corporations organized and existing under the laws of the United States.

For example, if a foreign corporation has the following net income:

From business transacted in the United States	\$10,000	
From interest on bonds of domestic corporations	5,000	
From dividends on stocks of domestic corporations	<u>3,000</u>	
The total net income subject to tax at 2%	\$18,000	
Tax at 2%		\$360
Less dividends	<u>3,000</u>	
Income subject to tax at 4%	\$15,000	
Tax at 4%		<u>600</u>
Total income tax (not including excess profits tax)		\$960

Credit shall be taken for the amount of tax which has been withheld at the source.

Non-Resident Alien Defined

INDIVIDUALS

Non-resident alien, under the Federal Income Tax Law, means a citizen of a country other than the United States, whose domicile is without the United States. Aliens, temporarily residing or employed in the United States, as for a season or other similarly definite term, are within the class of non-resident aliens.

For the purposes of the income tax, it is held that where for business purposes or otherwise, an alien is permanently located in the United States, has there his principal business establishment and is there permanently occupied or employed, even though his domicile may be without the United States, he will be held to be within the definition of "every person residing in the United States, though not a citizen thereof" and subject to tax accordingly.

Residence means that place where a man has his true, fixed and permanent home and principal establishment and to which, whenever he is absent, he has the intention of returning, and indicates permanency of occupation as distinct from lodging or boarding, or temporary occupation.

It is important to note that a native or naturalized citizen of the United States can become a non-resident alien only where his status is changed by affirmative action or is forfeited by overt act. An American woman marrying a foreigner takes the nationality of her husband.

Aliens coming to the United States with the intention of becoming residents thereof, within the meaning and intent of the income tax law, may establish that fact and have the privilege of resident aliens under the law, by filing with withholding agents, a certificate (Form

1078), which certificate shall be forwarded by withholding agents to collectors of Internal Revenue, as justification for the assessment of the income tax on the basis of residence in the United States.

"United States" includes the States, Territories of Alaska and Hawaii and the District of Columbia.

"Foreign" refers to any foreign country or government or any possession of the United States not mentioned above.

CORPORATIONS

"Foreign corporation" includes municipal and private corporations holding charters under laws of countries foreign to the United States. Foreign corporations having several branch offices in the United States should designate one as their principal office and also designate the proper officer to make tax returns for them.

A foreign corporation may be transacting business or have capital invested in this country through an agent as completely as if it were transacting business or investing capital direct from its home office or duly established branch office. Such agent is to all intents and purposes a branch of the foreign corporation. If a representative of a foreign corporation is employed for the purpose of soliciting business, such corporation will be "transacting business in this country," the fact that the agent has only a mailing address here being immaterial.

Exemptions

INDIVIDUALS

Under the income tax law, as amended October 3, 1917, a non-resident alien is not allowed any specific exemption, the provision of the Act of September 8, 1916, permitting such exemption having been repealed.

CORPORATIONS EXEMPT

The following named corporations, organizations and associations are exempt from tax upon incomes received from sources within the United States:

1. Labor, agricultural, or horticultural organization;
2. Mutual savings bank not having a capital stock represented by shares;
3. Fraternal beneficiary society, order, or association, operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;
4. Domestic building and loan association and co-operative banks without capital stock organized and operated for mutual purposes and without profit;
5. Cemetery company owned and operated exclusively for the benefit of its members;
6. Corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual;
7. Business league, chamber of commerce, or board of trade, not organized for profit, and no part of the

- net income of which inures to the benefit of any private stockholder or individual;
8. Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;
 9. Club organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net income of which inures to the benefit of any private stockholder or member;
 10. Farmers' or other mutual hail, cyclone, or fire insurance company, mutual ditch or irrigation company, mutual or coöperative telephone company, or like organization of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses;
 11. Farmers', fruit growers', or like association, organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;
 12. Corporation or association organized for the exclusive purpose of holding title to property, collecting income therefrom and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this title.

NOTICE TO COLLECTOR

The foregoing corporations, exempt from tax, may receive the benefit of exemption only by stating in the form of an affidavit to the collector of internal revenue of the district in which their principal offices in the United States are located, (or, if they have no office in the United States, to the Collector of Internal Revenue

at Baltimore, Maryland) the nature and purpose of their organization, the sources and disposition of their income, and whether or not any of their stock will ever inure to the benefit of a private individual.

FOREIGN GOVERNMENTS

Income of foreign governments received from investments in the United States in stocks, bonds, or other domestic securities owned by such foreign governments, and interest on deposits in banks in the United States of money belonging to foreign governments is exempt from tax.

INCOME EXEMPT

The following income is exempt from tax and should not be reported:

1. Proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured;
2. Amounts received by insured, as a return of premiums paid by him under life insurance, endowment or annuity contracts, during the term or at maturity of the term mentioned in the contract;
3. Value of property acquired by gift, devise, or descent (but the income from such property is not exempt);
4. Interest on obligations of a State of the United States or any political subdivision thereof.
5. Interest on obligations of the United States (in the case of those issued after September 1, 1917, only to the extent provided in the Act authorizing their issue) or on obligations of its possessions, or securities issued under the Federal Farm Loan Act of July 17, 1916.

Net Income

Subject to certain deductions and credits permitted under the law, net income shall consist of all gains, profits and income derived from sources within the United States (except that specifically exempt), including income from business transacted and income growing out of the ownership of property in the United States.

The above includes all income derived from stocks, bonds and other similar obligations of residents of the United States, corporate or otherwise.

SALARIES, RENTS, ETC.

Salaries, wages, commissions and rents paid by domestic corporations, resident individuals and partnerships to non-resident alien employees for services rendered entirely in a foreign country and for property located in a foreign country, are not subject to deduction and withholding of the normal tax and such payments of income will not be subject to the income tax in the hands of the recipients, as from a source within the United States.

INCOME FROM FIDUCIARIES

If income from sources within the United States accrues to a non-resident alien beneficiary through a fiduciary, such income is subject to tax. The intervention of a fiduciary resident in the United States does not serve to relieve from taxation income otherwise taxable under the terms of the law and such income received must be reported for taxation.

INCOME FROM PARTNERSHIPS

Partnerships, as such, are not subject to income tax but are subject to excess profits tax. The net dis-

tributable income of a partnership derived from sources within the United States is subject to tax as income of the individual partners, in proportion to their respective interests therein. Such net income from a partnership shall be returned by the individual partners in their personal returns, entering separately in the spaces provided therefor, dividends from stock and interest on bonds of domestic corporations.

DIVIDENDS FROM DOMESTIC CORPORATIONS

The term dividends means any distribution made or ordered to be made by a domestic corporation, joint-stock company, association, or insurance company out of its earnings or profits accrued since March 1, 1913, and payable to its stockholders in cash or stock.

Stock dividends shall be considered income to the amount of surplus, undivided profits and earnings so distributed. For instance, if a corporation issues a stock dividend of 100 shares, having a par value of \$100 each and transfers to capital an amount of surplus and undivided profits equal to the value of the stock distributed, the par value of the stock received shall be returned as taxable income.

The United States Supreme Court, in its opinion in the case of *Towne vs. Eisner*, handed down January 7, 1918, a case arising under the Act of October 3, 1913, held that stock dividends were not subject to tax. The Commissioner of Internal Revenue has ruled that this decision does not affect the taxable status of dividends under the Acts of September 8, 1916, and October 3, 1917, and therefore that stock dividends distributed in 1917 are subject to tax.

Dividends are not subject to the individual normal tax of two per centum, but only to the surtax. The rates of surtax depend upon the year in which the

surplus from which the dividend distributed was accumulated by the corporation, the rates in force during the year in which the surplus was accumulated, being applicable. For example, if a dividend is paid in 1917 from surplus which was accumulated by the corporation in 1916, such dividend will be reported in the income tax return for 1917, separately from dividends paid from surplus accumulated in 1917, and will be taxed at the rates of surtax effective during the year 1916.

DIVIDENDS PAID IN SCRIP

Dividends paid in scrip must be entered in the return at the face value of the scrip.

RECORD OWNER—NOT ACTUAL OWNER

Dividends on stock of domestic or resident alien corporations are held prima facie to be income to the record owner of the stock. Such record owner will be held liable for the income tax, unless a disclosure of actual ownership is made to the Commissioner of Internal Revenue showing the name and address of the actual owner. For this purpose, ownership certificate Form 1087 will be used, the certificate being executed by the actual owner and filed with the record owner, who in turn will forward the same to the Commissioner of Internal Revenue.

ROYALTIES

Royalties paid to a non-resident alien under an agreement of purchase of patent rights, the payments being based upon the quantity of goods produced by the use of such patents, are held to be income accruing to non-resident aliens by reason of property owned or business carried on within the United States.

FOREIGN STEAMSHIP LINES

Foreign steamship lines, touching American ports and carrying freight and passengers, must make return showing as gross income, total receipts from all outgoing business, whether freight or passenger. The ratio should then be determined between such gross income and that from all ports within and without the United States in order that deductions permitted under the law may be computed. In other words, the net income will be ascertained for purposes of the tax payable to the United States by deducting from gross receipts from outgoing business, such a portion of the aggregate expenses, losses, etc., as such receipts bear to the aggregate receipts from all ports, except that the interest deduction, after being likewise apportioned shall be subject to the limitation fixed by law, in the case of foreign corporations transacting business or having capital invested in this country.

FOREIGN MUTUAL INSURANCE COMPANIES

Foreign mutual fire, mutual employers' liability, mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses, shall not return as income any portion of such deposits returned to their policyholders, but shall return all income received from all other sources plus such portions of such deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves.

FOREIGN LIFE INSURANCE COMPANIES

Foreign life insurance companies shall not include as income in any year any portion of any actual premium received from any individual policyholder that has been paid back or credited to such individual, or

treated as an abatement of premium of such individual within the year.

MUTUAL MARINE INSURANCE CORPORATIONS

Foreign mutual marine insurance companies shall include in their returns of gross income, premiums collected and received by them less amounts paid for re-insurance, but shall be entitled to include in deductions from gross income, amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment and the payment thereof.

Deductions

INDIVIDUALS

The following deductions are allowed non-resident alien individuals in determining net income subject to tax only upon condition that they file or cause to be filed with the collector of internal revenue a true and accurate return of total income received from all sources within the United States.

1. *Business Expenses.* The necessary expenses actually paid within the year in carrying on any business or trade conducted within the United States, not including personal, living or family expenses.
2. *Interest.* The proportion of all interest paid within the year on his indebtedness (except that incurred for the purchase of obligations or securities, the interest upon which is exempt from taxation as income under Section 4, of the Act of September 8, 1916, as amended October 3, 1917) which the gross yearly income from all sources within the United States bears to the gross yearly income derived from all sources within and without the United States.

All information for the computation of this deduction must be included in the return in order to have the benefit of the deduction.

3. *Taxes.* Taxes paid within the year imposed by the authority of the United States (except income and war excess profits taxes) or of its Territories or possessions, or by the authority of any State, county, school district or municipality or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits. (See Credits for war excess profits tax.)
4. *Losses in Business or Trade or from Casualty.* Losses actually sustained during the year, incurred in business or trade, conducted within the United States, or arising from fires, storms, shipwrecks or other casualty and from theft when such losses are not compensated for by insurance or otherwise. For the purpose of ascertaining the loss sustained from the sale or other disposition of property real, personal or mixed, acquired before March 1, 1913, the fair market price or value of such property as of March 1, 1913, shall be the basis for determining the amount of such loss sustained. If acquired after March 1, 1913, the cost of the property shall be the basis. To be deductible, the loss must not be speculative or fluctuating but it must be an absolute loss, actually sustained and ascertained during the tax year for which the deduction is sought to be made and it must be determined and ascertained upon a closed transaction.
5. *Losses Outside of Business or Trade.* Losses actually sustained during the year, to an amount not exceeding the profits arising therefrom in the United States, in transactions involving dealings in property, entered into for profit but not connected with business or trade.

6. *Bad Debts.* Debts, arising in the course of business or trade conducted within the United States, due the taxpayer and actually ascertained to be worthless and charged off within the year.
7. *Depreciation.* A reasonable allowance for the exhaustion, wear and tear of property within the United States, arising out of its use or employment in the business or trade; but no deduction shall be allowed for any amount paid out for new buildings, permanent improvements or betterments made to increase the value of the property, and no deduction shall be made for any amount of expense for the restoration of property or making good the exhaustion thereof for which an allowance is or has been made. The value to be cared for by depreciation is the actual amount invested in the property, and not the value which may be arbitrarily or otherwise fixed.
8. *Depletion.* A reasonable allowance for depletion or reduction in the quantity of contents through the operation of oil and gas wells and mines in the United States. In the case of oil and gas wells, it is a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow but by the settled production or regular flow. In the case of mines it is a reasonable allowance for depletion not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made. When the allowance authorized in either of the above cases shall equal the capital originally invested, or in the case of a purchase made prior to March 1, 1913, the fair market value as of that date, no further allowance shall be made. Depletion can be claimed only by the owner of the fee of the mineral interest. Mineral in place being real estate, in all cases where aliens are not permitted to own real estate in the

United States without some enabling 'Act making such ownership possible, except upon a showing of title satisfactory to the Commissioner of Internal Revenue, no depletion shall be allowed to a non-resident alien.

CORPORATIONS

Deductions allowed a non-resident alien corporation, contemplate only those items which have arisen in respect to its business or property in the United States.

The following deductions are permitted in the case of a non-resident alien corporation for the purpose of determining net income.

1. *Business Expenses.* All of the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and property within the United States, including rentals;
2. *Losses in Business.* All losses actually sustained within the year in business or trade conducted within the United States, when not compensated for by insurance or otherwise; including also a reasonable allowance for depreciation and depletion. (See "Depreciation" and "Depletion," page 22);
3. *Interest on Indebtedness.* Interest paid within the year on its indebtedness (except on indebtedness incurred in the purchase of obligations or securities the interest upon which is exempt from taxation as income) not in excess of the proportion of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the whole capital employed at the close of the year in the business, and (b) one-half of its interest bearing indebtedness then outstanding, which the gross income for the year from business transacted and capital invested in the United States bears

to gross income from all sources within and without the United States;

4. *Taxes.* Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes) or by its possessions or by the authority of any State or taxing subdivision thereof, paid within the United States, not including those assessed against local benefits.

LIFE INSURANCE PREMIUMS

Premiums paid on life insurance policies covering the lives of officers, employees, or those financially interested in any trade or business conducted by an individual, partnership or corporation, shall not be deducted in computing the net income of such individual, partnership or corporation.

ADDITIONS TO RESERVE FUNDS

In the case of insurance companies, the net addition required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts are allowable deductions.

Credits

DIVIDENDS

In computing the net income of individuals, subject to the normal tax of two per centum, the income embraced in a personal return shall be credited with dividends received on stock or from net earnings of corporations, joint-stock companies or associations, trustees or insurance companies which are taxable on their net income as provided in this law.

For the purpose of the assessment of the additional War Income Tax of four per centum on corporations, dividends may be deducted, but no deduction of such

dividends may be made for the purpose of the assessment of the tax of two per centum on corporations under the Act of September 8, 1916, as amended.

TAX WITHHELD AT SOURCE

Non-resident aliens and foreign corporations are allowed a credit for income on which the normal tax has been paid or withheld for payment at the source of the income.

EXCESS PROFITS TAX

The net income is also to be credited with any excess profits taxes which may be assessed for the same calendar or fiscal year, such credit being allowed both for the assessment of the normal tax and surtax in the case of an individual.

Withholding at the Source

INDIVIDUALS

The normal tax of two per centum shall be withheld at the source on all fixed and determinable annual income subject to tax, payable to non-resident alien individuals, except that derived from dividends on the stock of a domestic or resident corporation or from interest on obligations of the United States. Interest on bank deposits of non-resident alien individuals is subject to withholding of the normal tax at the source.

CORPORATIONS

Withholding in the case of a foreign corporation not engaged in business or trade within the United States and not having any office or place of business therein, applies only to the income derived from interest on bonds and similar obligations of domestic corporations and to dividends on the stock of such corpor-

ations. Interest on bank deposits in the United States owned by foreign corporations is not subject to withholding of the tax at the source.

PARTNERSHIPS AND FIRMS

Non-resident alien partnerships and firms are not subject to withholding of tax at the source. In presenting coupons from bonds of domestic corporations for payment, partnerships and firms will use Form 1001 Revised January, 1918.

INCOME SUBJECT TO WITHHOLDING

Income subject to withholding at the source may be divided into three classes as follows:

1. *Miscellaneous Income.* Miscellaneous fixed and determinable annual income, including income derived from salaries, rents, wages, royalties, interest (other than interest on corporate bonds), annuities or emoluments, payable to non-resident alien individuals, is subject to withholding of the two per centum normal tax. Such income, in order to be subject to withholding of the tax at the source must be fixed and determinable.

Income which is not fixed or certain and not payable at stated periods, or is indefinite or irregular as to amount or time of accrual, is not subject to withholding at the source. Income which is not fixed and determinable and upon which the tax will not be withheld at the source, includes that derived from the following professions and vocations: Farmers, merchants, lawyers, doctors, authors, inventors, and other professions and vocations whose income is irregular and indefinite. In connection with this class of income, the liabilities of representatives in the United States of non-resident aliens should be considered (pages 31 and 32);

2. *Interest on Bonds of United States Corporations.*

This class of income includes income from bonds or similar obligations of corporations organized or existing under the laws of the United States.

In presenting coupons for the payment of interest on corporate obligations, ownership certificates in the form prescribed by the Commissioner of Internal Revenue (Form 1000 Revised January, 1918) shall be filed by both non-resident alien individuals and foreign corporations, not having an office or place of business in the United States. The withholding at the source in the case of individuals will be at the rate of two per centum and in the case of corporations at the rate of six per centum.

If the bonds or obligations from which coupons are detached contain covenants whereby the debtor corporation agrees to pay any portion of the tax, and does pay the normal tax of two per centum, the face value of the coupons will be paid to the holder, and when income is returned for taxation, credit for the normal tax paid by the debtor corporation may be taken on the personal return of the individual or corporation.

Foreign corporations, having offices or places of business in the United States, should establish such fact by filing a certificate, in the form prescribed by the Commissioner of Internal Revenue (Form 1001, Revised January, 1918), with the issuing corporation, in order to be relieved from withholding of the tax at the source.

3. *Dividends on Stock of Domestic Corporations.* Dividends are subject to withholding of tax at the source only when owned by non-resident alien corporations, not having an office or place of business in the United States. Tax shall be withheld at the rate of two per centum.

If stock registered in the name of a non-resident alien corporation is actually owned by an individual, such fact may be established by filing with the issuing corporation Form 1087 (modified by striking out the words "to be filed with representative in the United States of such Foreign Principal" in the caption and the words "in the United States" in the body of the Form) disclosing actual ownership, and the tax will not be withheld at the source. If such showing is not made to the issuing corporation, the tax will be withheld, but upon disclosure of actual ownership, to the Commissioner of Internal Revenue on Form 1087, the amount withheld will be released.

If the issuing corporation has knowledge that stock registered in the name of any individual is actually owned by a foreign corporation, subject to withholding of tax at the source, the tax on the dividends therefrom shall be withheld and paid over to the Government.

Unless otherwise established, dividends are presumed to be income to the record holder of the stock and the issuing corporation will be governed in the withholding of the tax by the status of such record owners.

BEARER CERTIFICATES

Where foreign corporations, having no offices or places of business in the United States, are the record, but not the actual owners of stocks of domestic corporations and issue their bearer certificates, with coupons attached, against such stock and collect the dividends for the account of holders of the certificates, they are merely agents of the actual owners. By appointing an agent in the United States and by filing duplicate notices of such appointment with corporations

paying the dividends, such dividends may be paid over to the foreign corporation without withholding of the tax. The corporation receiving the notice should file one copy with the Commissioner of Internal Revenue. If dividends have been so paid without any withholding, the foreign corporations, through their agents, must make returns and pay the taxes on all dividends received except those shown to have been for the account of non-resident alien individuals. Certificate, Form 1087, should be signed by holders of certificates and attached to the returns filed.

Where tax has been withheld in such case, because there was no agent in the United States, the corporation may appoint an agent and receive a refund of the tax withheld by filing with the Commissioner of Internal Revenue, a statement showing:

1. The name and address of the foreign corporation which is the record owner of the stock and the fact that it is not the actual owner; and
2. The name and address of the corporation in which the stock is held, the amount of dividends paid and the amount of tax withheld by it; and
3. The names and addresses of the actual owners of the stock, the amount owned by each and the amount of dividend payable to each.

The showing in paragraph (3) above should be made by attaching to the statement ownership certificates, Form 1087.

BEARER CERTIFICATES ISSUED BY FOREIGN BANKS

If bearer certificates (mentioned in a preceding paragraph) are issued to a foreign bank in share lots, endorsed in blank by the bank, in which form they are sold to investors, such investors claiming their dividends by presenting the certificates to the bank,

the bank is held to have the status of a fiduciary. In such case, when receiving dividends from corporations within the United States, and disbursing them to the actual owners, the banks are not required to withhold the tax; but the non-resident alien, who is the actual recipient, must make a return and pay the surtax, if any is due.

Returns

INDIVIDUALS—WHEN REQUIRED

Every non-resident alien with respect to the United States, having income from sources within the United States, is required to file a complete and accurate return of income on or before March 1, for the preceding taxable year ending December 31, regardless of the amount of such income, unless the entire amount of tax due has been withheld and paid at the source.

WHERE FILED

The return in the case of an individual must be filed with the collector of internal revenue for the district in which the non-resident alien has his principal business establishment in the United States, or in the absence of a principal business establishment within the United States and in all cases of doubt, with the Collector of Internal Revenue at Baltimore, Maryland.

FORMS

Non-resident alien individuals will use Form 1040 for reporting income for the purpose of the assessment of the income tax.

VERIFICATION

The return must be verified by oath and, when rendered by an individual residing abroad, shall be

acknowledged before some duly appointed officer of the country in which he resides, authorized to administer oaths.

RETURNS BY REPRESENTATIVES IN THE UNITED STATES

The responsible head, agent or representative of a non-resident alien individual or corporation, who is in charge of the property owned or business carried on within the United States of such non-resident alien, is required to make a full and complete return of the income received and to pay any and all tax, normal and additional, assessed upon such income so received in behalf of such non-resident alien principal.

Under the provisions of the law, a nominee who holds stock belonging to a non-resident alien is considered the representative of such non-resident alien and required to file a return of dividends received on such stock. Likewise, a real estate agent who collects rents for a non-resident alien; the custodian in the United States of American investments who is empowered to sell and does sell from time to time securities so held; and any agents through whom a non-resident alien transacts business, are deemed representatives of the non-resident alien within the meaning of the income tax law and are thereby required to make returns for their non-resident alien principals. Such agent can be required to report only income which actually comes through his or its hands and, therefore, no deduction permitted under the law will be allowed unless the agent is qualified to make and does make a return of the entire net income of the principal. If only a partial return is made by the agent, it is necessary that a complete return be made by or in behalf of the non-resident alien in order that he may be entitled to the deductions allowed under the law.

If the principal is a non-resident alien individual the return will be made on Form 1040; if a corporation on Form 1031.

FOREIGN FIDUCIARIES

A non-resident alien fiduciary having in charge an estate or trust, the net income of which, derived from sources within the United States, is distributed annually or periodically among non-resident alien beneficiaries, is required to file a return of such income on Form 1041, in case there is more than one beneficiary, and a personal return on Form 1040 for each beneficiary, showing amount of income payable. If there is but one beneficiary, one return on Form 1040 is all that is required. These returns shall be filed regardless of the amount payable to beneficiaries.

ESTATE IN PROCESS OF SETTLEMENT

If such fiduciary has charge of an estate in process of administration or settlement, or an estate the income of which is held in trust for the benefit of unborn or unascertained persons, or for future distribution under the terms of a trust, the estate or trust will be considered a taxable entity and a fiduciary is required to render a return on Form 1040 covering income derived from sources within the United States.

RETURNS NECESSARY

TO OBTAIN ALLOWANCE OF DEDUCTIONS

In order to receive the benefit of the deductions and credits allowed, non-resident alien individuals must file, or cause to be filed with the Collector of Internal Revenue, a true and accurate return of total income, received from all sources, corporate or otherwise, in the United States.

RETURNS OF CORPORATIONS

The return of a foreign corporation other than insurance companies shall be made on Form 1031, duly sworn to by the president, or other principal officer, and by the treasurer or assistant treasurer, and filed with the collector of internal revenue for the district in which is located the principal place of business of the corporation in the United States, or, if there is no place of business, office or agency in the United States, with the Collector of Internal Revenue at Baltimore, Maryland.

Returns of insurance companies, including mutual life and mutual marine companies, shall be made on Form 1030. All other mutual insurance companies will use Form 1030A.

FISCAL YEAR

Returns may be made on the basis of a fiscal year by corporations (or by partnerships for the purpose of the excess profits tax) if the fiscal year of the corporation or firm does not correspond with the calendar year. The tax of four per centum under the War Income Tax Law will be assessed and paid only on that proportion of its income for the fiscal year which the period between January 1, 1917, and the end of the fiscal year bears to the whole of the fiscal year.

PARTNERSHIP RETURNS

Partnerships, unless so requested by the Commissioner of Internal Revenue, are not required to file returns (except under the Excess Profits Tax Law, in which case a return is necessary). When a partnership reports on the basis of a fiscal year, other than the calendar year, the tax will be computed on income returned in the individual returns of partners on the following basis:

If a fiscal year ends during 1916 or a subsequent calendar year for which there is a rate of tax different from the rate for the preceding calendar year, then (1) the rate for such preceding calendar year shall apply to an amount of each partner's share of such partnership profits equal to the proportion which the part of such fiscal year falling within such calendar year bears to the full fiscal year, and (2) the rate for the calendar year during which such fiscal year ends shall apply to the remainder.

NOTICE TO COLLECTOR

Notice of the designated day for closing the fiscal year of a corporation or partnership, should be given to the collector of internal revenue of the district in which is located the principal office or place of business of the foreign corporation or partnership in the United States or, in the absence of an office or place of business therein, to the Collector of Internal Revenue at Baltimore, Maryland, not less than thirty days prior to March 1, of the year in which its return would be filed if made upon the basis of the calendar year. After such notice is filed, the collector will grant permission to file returns on the basis of the fiscal year.

WHEN FILED—CORPORATIONS

The return of a foreign corporation subject to tax shall be made on or before March 1 of each year, for the preceding calendar year, or, if it has designated a fiscal year, within sixty days after the close of such fiscal year.

EXTENSION OF TIME

In the case of non-resident alien individuals or corporations, or an American citizen residing abroad, the time to file income tax returns for 1916 and subse-

quent years is extended for such period as may be necessary, to and including ninety days after the proclamation of the President, announcing the close of the war with Germany. An affidavit attached to the return, stating the cause or causes of delay in filing return, is required, in order that upon showing made, the commissioner may determine whether failure to file the return in time was due to a reasonable cause and not to wilful neglect. When the showing justifies the conclusion that failure to file returns in time is excusable, no penalty will be imposed.

DIVIDENDS ACCOUNTED FOR IN RETURNS

Returns of non-resident aliens must include all dividends derived from the stocks of domestic corporations.

REFUND OF TAX WITHHELD

Where, upon filing a return of income, it appears that a non-resident alien is not liable for income tax, but, nevertheless, income tax shall have been withheld at the source, in order to obtain a refund on the basis of the showing made by the return there shall be attached to the return a statement showing accurately the amounts of tax withheld, with the names and post-office addresses of all withholding agents.

Penalties

FALSE RETURNS

The making of a false return of income shall be punished by a fine of not exceeding \$2,000 or imprisonment for not exceeding one year, or both, in the discretion of the court, and by the addition of a penalty of one hundred per centum of the amount of tax which a correct return shows to be due.

LATE RETURNS

The failure to file returns on time is punishable by a fine of not less than \$20 nor more than \$1,000 and in addition, a tax of fifty per centum of the amount of tax due may be assessed, if return is not thereafter voluntarily made without notice from the collector.

FAILURE TO PAY TAX

For failure to pay the tax on time, five per centum of the amount of tax due and one per centum interest for each month during which the tax remains unpaid is assessed as a penalty. This does not apply to estates of insane, deceased or insolvent persons.

FAILURE TO FILE RETURN WITH INTENT TO EVADE TAX

Where the fact is established that the taxpayer failed to file a return because of a desire to evade the payment of the tax, a penalty is imposed of one hundred per centum of the amount of tax shown by a correct return to have been due.

Payment

NOTICE OF ASSESSMENT

All persons and corporations are notified on or before June 1 of each year of the amount of tax for which they are liable and payment must be made on or before June 15 of the same year.

CORPORATIONS HAVING FISCAL YEAR

A foreign corporation having a fiscal year shall pay the taxes due under its assessment within one hundred and five days after the date upon which it is required to file its return of income for assessment.

HOW PAYMENT IS MADE

Payment may be made by cash or check, but if an uncertified check is received and not paid by the bank on which it is drawn, the person tendering it remains liable for the tax and is subject to penalties, the same as if no check had been tendered.

PAYMENT IN ADVANCE

Payment in advance may be made either in installments or in full. If paid in installments, one fourth of the estimated tax due must be paid before the expiration of thirty days after the close of the taxable year, one-fourth within two months after the close of the taxable year, one-fourth within four months after the close of the taxable year, and the remainder of the tax due, on or before the time fixed for payment. Any amount paid in excess of tax liability will be refunded. Credit of interest not exceeding three per centum per annum, calculated upon the amount of tax paid from the date of payment to the date fixed by law for such

payment, may be allowed on payment made in advance.

DISTRAINT

In case of the failure of a non-resident alien individual to file a proper return or to pay the tax which is due, the collector of internal revenue shall collect the proper amount of tax, and all property in the United States belonging to the delinquent shall be liable to distraint for the tax.

The Federal Income Tax Law

Act of September 8, 1916

As amended October 3, 1917

(Amendments under the Act of October 3, 1917, are
printed in italics)

Title I.—Income Tax

Part I.—On Individuals

SEC. 1. (a) That there shall be levied, assessed, **Normal**
collected, and paid annually upon the entire net income **Tax**
received in the preceding calendar year from all sources
by every individual, a citizen or resident of the United
States, a tax of two per centum upon such income; and
a like tax shall be levied, assessed, collected, and paid
annually upon the entire net income received in the
preceding calendar year from all sources within the
United States by every individual, a nonresident alien,
including interest on bonds, notes, or other interest-
bearing obligations of residents, corporate or otherwise.

(b) In addition to the income tax imposed by sub-
division (a) of this section (herein referred to as the
normal tax) there shall be levied, assessed, collected,
and paid upon the total net income of every individual,
or, in the case of a nonresident alien, the total net
income received from all sources within the United
States, an additional income tax (herein referred to as
the additional tax) of one per centum per annum upon
the amount by which such total net income exceeds
\$20,000 and does not exceed \$40,000, two per centum

**Additional-
al Tax on
Incomes
over
\$20,000**

per annum upon the amount by which such total net income exceeds \$40,000 and does not exceed \$60,000, three per centum per annum upon the amount by which such total net income exceeds \$60,000 and does not exceed \$80,000, four per centum per annum upon the amount by which such total net income exceeds \$80,000 and does not exceed \$100,000, five per centum per annum upon the amount by which such total net income exceeds \$100,000 and does not exceed \$150,000, six per centum per annum upon the amount by which such total net income exceeds \$150,000 and does not exceed \$200,000, seven per centum per annum upon the amount by which such total net income exceeds \$200,000 and does not exceed \$250,000, eight per centum per annum upon the amount by which such total net income exceeds \$250,000 and does not exceed \$300,000, nine per centum per annum upon the amount by which such total net income exceeds \$300,000 and does not exceed \$500,000, ten per centum per annum upon the amount by which such total net income exceeds \$500,000 and does not exceed \$1,000,000, eleven per centum per annum upon the amount by which such total net income exceeds \$1,000,000 and does not exceed \$1,500,000, twelve per centum per annum upon the amount by which such total net income exceeds \$1,500,000 and does not exceed \$2,000,000, and thirteen per centum per annum upon the amount by which such total net income exceeds \$2,000,000.

**Dividends
Subject
to Surtax**

For the purpose of the additional tax there shall be included as income the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company, except that in the case of non-resident aliens such income derived from sources without the United States shall not be included.

All the provisions of this title relating to the normal

tax on individuals, so far as they are applicable and are not inconsistent with this subdivision and section three, shall apply to the imposition, levy, assessment, and collection of the additional tax imposed under this subdivision.

(c) The foregoing normal and additional tax rates shall apply to the entire net income, except as hereinafter provided, received by every taxable person in the calendar year nineteen hundred and sixteen and in each calendar year thereafter.

Income Defined

SEC. 2. (a) *That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a taxable person shall include gains, profits, and income, derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever.*

(b) Income received by estates of deceased persons during the period of administration or settlement of the estate, shall be subject to the normal and additional tax and taxed to their estates, and also such income of estates or any kind of property held in trust, including such income accumulated in trust for the benefit of unborn or unascertained persons, or persons with contingent interests, and income held for future distribution under the terms of the will or trust shall be likewise taxed, the tax in each instance, except when the income is returned for the purpose of the tax by the beneficiary, to be assessed to the executor, adminis-

Net
Income

Source
Derived

Income
Received
by Estates

trator, or trustee, as the case may be: *Provided*, That where the income is to be distributed annually or regularly between existing heirs or legatees, or beneficiaries the rate of tax and method of computing the same shall be based in each case upon the amount of the individual share to be distributed.

Fiduciaries Indemnified

Such trustees, executors, administrators, and other fiduciaries are hereby indemnified against the claims or demands of every beneficiary for all payments of taxes which they shall be required to make under the provisions of this title, and they shall have credit for the amount of such payments against the beneficiary or principal in any accounting which they make as such trustees or other fiduciaries.

Ascertainment of Gain on Property Acquired Prior to March 1, 1913

(c) For the purpose of ascertaining the gain derived from the sale or other disposition of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived.

Additional Tax Includes Undistributed Profits

Undistributed Profits Subject to Additional Tax

SEC. 3. For the purpose of the additional tax, the taxable income of any individual shall include the share to which he would be entitled of the gains and profits, if divided or distributed, whether divided or distributed or not, of all corporations, joint-stock companies or associations, or insurance companies, however created or organized, formed or fraudulently availed of for the purpose of preventing the imposition of such tax through the medium of permitting such gains and profits to accumulate instead of being divided or distributed; and the fact that any such corporation, joint-stock company or association, or insurance company, is a mere holding company, or that the gains and

profits are permitted to accumulate beyond the reasonable needs of the business, shall be prima facie evidence of a fraudulent purpose to escape such tax; but the fact that the gains and profits are in any case permitted to accumulate and become surplus shall not be construed as evidence of a purpose to escape the said tax in such case unless the Secretary of the Treasury shall certify that in his opinion such accumulation is unreasonable for the purposes of the business. When requested by the Commissioner of Internal Revenue, or any district collector of internal revenue, such corporation, joint-stock company or association, or insurance company shall forward to him a correct statement of such gains and profits and the names and addresses of the individuals or shareholders who would be entitled to the same if divided or distributed.

Returns
of Names
and Hold-
ings of
Share-
holders

Income Exempt from Law

SEC. 4. *The following income shall be exempt from the provisions of this title:*

Income
Exempt

The proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured; the amount received by the insured, as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract; the value of property acquired by gift, bequest, devise, or descent (but the income from such property shall be included as income); interest upon the obligations of a State or any political subdivision thereof or upon the obligations of the United States (but, in the case of obligations of the United States issued after September first, nineteen hundred and seventeen, only if and to the extent provided in the Act authorizing the issue thereof) or its possessions or securities issued

Life
Insurance
Policies

Gifts

Interest
on Gov-
ernment
Bonds

**Salaries of
Govern-
mental
Officers**

under the provisions of the Federal Farm Loan Act of July seventeenth, nineteen hundred and sixteen; the compensation of the present President of the United States during the term for which he has been elected and the judges of the supreme and inferior courts of the United States now in office, and the compensation of all officers and employees of a State, or any political subdivision thereof, except when such compensation is paid by the United States Government.

Deductions Allowed

**General
Deduc-
tions**

SEC. 5. That in computing net income in the case of a citizen or resident of the United States—

(a) For the purpose of the tax there shall be allowed as deductions—

Expenses

First. The necessary expenses actually paid in carrying on any business or trade, not including personal, living, or family expenses;

Interest

Second. *All interest paid within the year on his indebtedness except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title;*

Taxes

Third. *Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes) or of its Territories, or possessions, or any foreign country, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits;*

**Losses
in Trade,
and from
Casualty**

Fourth. Losses actually sustained during the year, incurred in his business or trade, or arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: *Provided, That for the purpose of ascertaining the loss sustained from the sale or other disposition of property, real, personal, or mixed, acquired*

before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such loss sustained;

Fifth. In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount not exceeding the profits arising therefrom;

Losses
Outside of
Business

Sixth. Debts due to the taxpayer actually ascertained to be worthless and charged off within the year;

Debts

Seventh. A reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade;

Deprecia-
tion

Eighth. (a) In the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof, which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowances authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Oil and
Gas Wells

Mines

No De-
duction
for Im-
prove-
ments

Contributions and Gifts

Ninth. Contributions or gifts actually made within the year to corporations or associations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which inures to the benefit of any private stockholder or individual, to an amount not in excess of fifteen per centum of the taxpayer's taxable net income as computed without the benefit of this paragraph. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

Credits Allowed

Dividends

(b) For the purpose of the normal tax only, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any corporation, joint-stock company or association, trustee, or insurance company, which is taxable upon its net income as hereinafter provided;

Tax Paid at Source

(c) A like credit shall be allowed as to the amount of income, the normal tax upon which has been paid or withheld for payment at the source of the income under the provisions of this title.

Nonresident Aliens

General Deductions

SEC. 6. That in computing net income in the case of a nonresident alien—

Expenses

(a) For the purpose of the tax there shall be allowed as deductions—

First. The necessary expenses actually paid in carrying on any business or trade conducted by him within the United States, not including personal, living, or family expenses;

Second. *The proportion of all interest paid within the year by such person on his indebtedness (except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title) which the gross amount of his income for the year derived from sources within the United States bears to the gross amount of his income for the year derived from all sources within and without the United States, but this deduction shall be allowed only if such person includes in the return required by section eight all the information necessary for its calculation;*

Interest

Third. *Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes), or of its Territories, or possessions, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, paid within the United States, not including those assessed against local benefits;*

Taxes

Fourth. *Losses actually sustained during the year, incurred in business or trade conducted by him within the United States, and losses of property within the United States arising from fires, storms, shipwreck, or other casualty, and from theft, when such losses are not compensated for by insurance or otherwise: Provided, That for the purpose of ascertaining the amount of such loss or losses sustained in trade, or speculative transactions not in trade, from the same or any kind of property acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such loss or losses sustained;*

Losses
in Trade,
and from
Casualty

Fifth. *In transactions entered into for profit but not connected with his business or trade, the losses actually sustained therein during the year to an amount*

Losses
Outside
of
Business

not exceeding the profits arising therefrom in the United States;

Debts Sixth. Debts arising in the course of business or trade conducted by him within the United States due to the taxpayer actually ascertained to be worthless and charged off within the year;

Depreciation Seventh. A reasonable allowance for the exhaustion, wear and tear of property within the United States arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable

Oil and Gas Wells allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of

Mines mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such

reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b)

No Deduction for Improvements shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made. No deduction shall be allowed for any amount paid out for new

buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Credits (b) There shall also be allowed the credits specified by subdivisions (b) and (c) of section five.

(c) *A nonresident alien individual shall receive the benefit of the deductions and credits provided for in this*

section only by filing or causing to be filed with the collector of internal revenue a true and accurate return of his total income, received from all sources, corporate or otherwise, in the United States, in the manner prescribed by this title; and in case of his failure to file such return the collector shall collect the tax on such income, and all property belonging to such nonresident alien individual shall be liable to distraint for the tax.

Deductions and Credits of Nonresident Aliens Dependent Upon Return

Personal Exemption

SEC. 7. *That for the purpose of the normal tax only there shall be allowed as an exemption in the nature of a deduction from the amount of the net income of each citizen or resident of the United States, ascertained as provided herein, the sum of \$3,000, plus \$1,000 additional if the person making the return be a head of a family or a married man with a wife living with him, or plus the sum of \$1,000 additional if the person making the return be a married woman with a husband living with her; but in no event shall this additional exemption of \$1,000 be deducted by both a husband and a wife: Provided, That only one deduction of \$4,000 shall be made from the aggregate income of both husband and wife when living together: Provided further, That if the person making the return is the head of a family there shall be an additional exemption of \$200 for each child dependent upon such person, if under eighteen years of age, or if incapable of self-support because mentally or physically defective, but this provision shall operate only in the case of one parent in the same family: Provided further, That guardians or trustees shall be allowed to make this personal exemption as to income derived from the property of which such guardian or trustee has charge in favor of each ward or cestui que trust: Provided further, That in no event shall a ward or cestui que trust be allowed a greater personal exemption than as provided in this section, from the amount of net income*

Specific Exemptions

Children

Fiduciaries

Estates of Decedents *received from all sources. There shall also be allowed an exemption from the amount of the net income of estates of deceased citizens or residents of the United States during the period of administration or settlement, and of trust or other estates of citizens or residents of the United States the income of which is not distributed annually or regularly under the provisions of subdivision (b) of section two, the sum of \$3,000, including such deductions as are allowed under section five.*

Returns

Return of Net Income **SEC. 8. (a)** The tax shall be computed upon the net income, as thus ascertained, of each person subject thereto, received in each preceding calendar year ending December thirty-first.

To Whom Returns Made **(b)** On or before the first day of March, nineteen hundred and seventeen, and the first day of March in each year thereafter, a true and accurate return under oath shall be made by each person of lawful age, except as hereinafter provided, having a net income of \$3,000 or over for the taxable year to the collector of internal revenue for the district in which such person has his legal residence or principal place of business, or if there be no legal residence or place of business in the United States, then with the collector of internal revenue at Baltimore, Maryland, in such form as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe, setting forth specifically the gross amount of income from all separate sources, and from the total thereof deducting the aggregate items of allowances herein authorized: *Provided*, That the Commissioner of Internal Revenue shall have authority to grant a reasonable extension of time, in meretorious cases, for filing returns of income by persons residing or traveling abroad who are required to make and file returns of income

Extension of Time for Filing Returns

and who are unable to file said returns on or before March first of each year: *Provided further*, That the aforesaid return may be made by an agent when by reason of illness, absence, or nonresidence the person liable for said return is unable to make and render the same, the agent assuming the responsibility of making the return and incurring penalties provided for erroneous, false, or fraudulent return.

When
Agent
May Make
Return

(c) *Guardians, trustees, executors, administrators, receivers, conservators, and all persons, corporations, or associations, acting in any fiduciary capacity, shall make and render a return of the income of the person, trust, or estate for whom or which they act, and be subject to all the provisions of this title which apply to individuals. Such fiduciary shall make oath that he has sufficient knowledge of the affairs of such person, trust, or estate to enable him to make such return and that the same is, to the best of his knowledge and belief, true and correct, and be subject to all the provisions of this title which apply to individuals: Provided, That a return made by one of two or more joint fiduciaries filed in the district where such fiduciary resides, under such regulations as the Secretary of the Treasury may prescribe, shall be a sufficient compliance with the requirements of this paragraph: Provided further, That no return of income not exceeding \$3,000 shall be required except as in this title otherwise provided.*

Fiducia-
ries

(e) *Persons carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits of the partnership to which any taxable partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid under the provisions of this title: Provided, That from the net distributive interests on which the individual members shall be liable for tax, normal and additional, there shall be excluded their proportionate shares received from interest on the obligations of a State*

Partner-
ships

Obliga-
tion of
United
States

or any political or taxing subdivision thereof, and upon the obligations of the United States (if and to the extent that it is provided in the Act authorizing the issue of such obligations of the United States that they are exempt from taxation), and its possessions, and that for the purpose of computing the normal tax there shall be allowed a credit, as provided by section five, subdivision (b), for their proportionate share of the profits derived from dividends. Such partnership, when requested by the Commissioner of Internal Revenue or any district collector, shall render a correct return of the earnings, profits, and income of the partnership, except income exempt under section four of this Act, setting forth the item of the gross income and the deductions and credits allowed by this title, and the names and addresses of the individuals who would be entitled to the net earnings, profits, and income, if distributed. A partnership shall have the same privilege of fixing and making returns upon the basis of its own fiscal year as is accorded to corporations under this title. If a fiscal year ends during nineteen hundred and sixteen or a subsequent calendar year for which there is a rate of tax different from the rate for the preceding calendar year, then (1) the rate for such preceding calendar year shall apply to an amount of each partner's share of such partnership profits equal to the proportion which the part of such fiscal year falling within such calendar year bears to the full fiscal year, and (2) the rate for the calendar year during which such fiscal year ends shall apply to the remainder.

Fiscal or
Calendar
Year

Rate

Divi-
dends to
be Inclu-
ded in
Return

(f) In every return shall be included the income derived from dividends on the capital stock or from the net earnings of any corporation, joint-stock company or association, or insurance company, except that in the case of nonresident aliens such income derived from sources without the United States shall not be included.

(g) An individual keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect his income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make his returns upon the basis upon which his accounts are kept, in which case the tax shall be computed upon his income as so returned.

Accounts
other
than
Receipt
Basis

Assessment and Administration

SEC. 9. (a) That all assessments shall be made by the Commissioner of Internal Revenue and all persons shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said amounts shall be paid on or before the fifteenth day of June, except in cases of refusal or neglect to make such return and in cases of erroneous, false, or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, or has been made, make a return upon information obtained as provided for in this title or by existing law, or require the necessary corrections to be made, and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such person or persons immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the fifteenth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid, and interest at the rate of one per centum per month upon said tax from the time the same became due, except from the estates of insane, deceased, or insolvent persons.

When
Personal
Tax is
Payable

Penalty
for
Failure to
Make
Returns

Deduction at Source Non-resident Alien

(b) *All persons, corporations, partnerships, associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, employers, and all officers and employees of the United States, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual or periodical gains, profits, and income of any nonresident alien individual, other than income derived from dividends on capital stock, or from the net earnings of a corporation, joint-stock company or association, or insurance company, which is taxable upon its net income as provided in this title, are hereby authorized and required to deduct and withhold from such annual or periodical gains, profits, and income such sum as will be sufficient to pay the normal tax imposed thereon by this title, and shall make return thereof on or before March first of each year and, on or before the time fixed by law for the payment of the tax, shall pay the amount withheld to the officer of the United States Government authorized to receive the same; and they are each hereby made personally liable for such tax, and they are each hereby indemnified against every person, corporation, partnership, association, or insurance company, or demand whatsoever for all payments which they shall make in pursuance and by virtue of this title.*

Dividends Excepted

Tax Free Bonds

(c) *The amount of the normal tax hereinbefore imposed shall also be deducted and withheld from fixed or determinable annual or periodical gains, profits and income derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies, associations, and insurance companies, (if such bonds, mortgages, or other obligations contain a contract or provision by which the obligor*

agrees to pay any portion of the tax imposed by this title upon the obligee or to reimburse the obligee for any portion of the tax or to pay the interest without deduction for any tax which the obligor may be required or permitted to pay thereon or to retain therefrom under any law of the United States) whether payable annually or at shorter or longer periods and whether such interest is payable to a nonresident alien individual or to an individual citizen or resident of the United States, subject to the provisions of the foregoing subdivision (b) of this section requiring the tax to be withheld at the source and deducted from annual income and returned and paid to the Government, unless the person entitled to receive such interest shall file with the withholding agent, on or before February first, a signed notice in writing claiming the benefit of an exemption under section seven of this title.

Filing Exemption

(2) Subdivisions (d) and (e) of section nine of (such Act of September eighth, nineteen hundred) and sixteen, are hereby repealed.

(f) *All persons, corporations, partnerships, or associations, undertaking as a matter of business or for profit the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange shall obtain a license from the Commissioner of Internal Revenue, and shall be subject to such regulations enabling the Government to obtain the information required under this title, as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; and whoever knowingly undertakes to collect such payments as aforesaid without having obtained a license therefor, or without complying with such regulations, shall be deemed guilty of a misdemeanor and for each offense be fined in a sum not exceeding \$5,000, or imprisoned for a term not exceeding one year, or both, in the discretion of the court.*

Collection of Foreign Items

Penalty for Collecting without License

**Tax
Assessed
by Per-
sonal
Returns**

(g) *The tax herein imposed upon gains, profits, and incomes not falling under the foregoing and not returned and paid by virtue of the foregoing or as otherwise provided by law shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury. The intent and purpose of this title is that all gains, profits, and income of a taxable class, as defined by this title, shall be charged and assessed with the corresponding tax, normal and additional, prescribed by this title, and said tax shall be paid by the owner of such income, or the proper representative having the receipt, custody, control, or disposal of the same. For the purpose of this title ownership or liability shall be determined as of the year for which a return is required to be rendered.*

The provisions of this section, except subdivision (c), relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon non-resident alien individuals.

Part II.—On Corporations

**Corpora-
tion Tax
on Net
Income**

SEC. 10. (a) *That there shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources by every corporation, joint-stock company or association, or insurance company, organized in the United States, no matter how created or organized, but not including partnerships, a tax of two per centum upon such income; and a like tax shall be levied, assessed and collected, and paid annually upon the total net income received in the preceding calendar year from all sources within the United States by every corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, including*

interest on bonds, notes, or other interest-bearing obligations of residents, corporate or otherwise, and including the income derived from dividends on capital stock or from net earnings of resident corporations, joint-stock companies or associations, or insurance companies, whose net income is taxable under this title.

The foregoing tax rate shall apply to the total net income received by every taxable corporation, joint-stock company or association, or insurance company in the calendar year nineteen hundred and sixteen and in each year thereafter, except that if it has fixed its own fiscal year under the provisions of existing law, the foregoing rate shall apply to the proportion of the total net income returned for the fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, which the period between January first, nineteen hundred and sixteen, and the end of such fiscal year bears to the whole of such fiscal year, and the rate fixed in Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," shall apply to the remaining portion of the total net income returned for such fiscal year.

Fiscal
Year

For the purpose of ascertaining the gain derived or loss sustained from the sale or other disposition by a corporation, joint-stock company or association, or insurance company, of property, real, personal, or mixed, acquired before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived or loss sustained.

Disposi-
tion of
Property

(b) In addition to the income tax imposed by subdivision (a) of this section there shall be levied, assessed, collected, and paid annually an additional tax of ten per

**Undis-
tributed
Surplus**

centum upon the amount, remaining undistributed six months after the end of each calendar or fiscal year, of the total net income of every corporation, joint-stock company or association, or insurance company, received during the year, as determined for the purposes of the tax imposed by such subdivision (a), but not including the amount of any income taxes paid by it within the year imposed by the authority of the United States.

**Actually
Invested**

The tax imposed by this subdivision shall not apply to that portion of such undistributed net income which is actually invested and employed in the business or is retained for employment in the reasonable requirements of the business or is invested in obligations of the United States issued after September first, nineteen hundred and seventeen: Provided, That if the Secretary of the Treasury ascertains and finds that any portion of such amount so retained at any time for employment in the business is not so employed or is not reasonably required in the business a tax of fifteen per centum shall be levied, assessed, collected, and paid thereon.

The foregoing tax rates shall apply to the undistributed net income received by every taxable corporation, joint-stock company or association, or insurance company in the calendar year nineteen hundred and seventeen and in each year thereafter, except that if it has fixed its own fiscal year under the provisions of existing law, the foregoing rates shall apply to the proportion of the taxable undistributed net income returned for the fiscal year ending prior to December thirty-first, nineteen hundred and seventeen, which the period between January first, nineteen hundred and seventeen, and the end of such fiscal year bears to the whole of such fiscal year.

Conditional and Other Exemptions

**Organiza-
tions
Exempt**

SEC. 11. (a) That there shall not be taxed under this title any income received by any—

First. Labor, agricultural, or horticultural organization;

Second. Mutual savings bank not having a capital stock represented by shares;

Third. Fraternal beneficiary society, order, or association, operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and providing for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;

Fourth. Domestic building and loan association and coöperative banks without capital stock organized and operated for mutual purposes and without profit;

Fifth. Cemetery company owned and operated exclusively for the benefit of its members;

Sixth. Corporation or association organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual;

Seventh. Business league, chamber of commerce, or board of trade, not organized for profit and no part of the net income of which inures to the benefit of any private stockholder or individual;

Eighth. Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare;

Ninth. Club organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net income of which inures to the benefit of any private stockholder or member;

Tenth. Farmers' or other mutual hail, cyclone, or fire insurance company, mutual ditch or irrigation

company, mutual or coöperative telephone company, or like organization of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses;

Eleventh. Farmers', fruit growers', or like association, organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses, on the basis of the quantity of produce furnished by them;

Twelfth. Corporation or association organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt from the tax imposed by this title; or

Thirteenth. Federal land banks and national farm-loan associations as provided in section twenty-six of the Act approved July seventeenth, nineteen hundred and sixteen, entitled "An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositories and financial agents for the United States, and for other purposes."

Fourteenth. Joint stock land banks as to income derived from bonds or debentures of other joint stock land banks or any Federal land bank belonging to such joint stock land bank.

(b) There shall not be taxed under this title any income derived from any public utility or from the exercise of any essential governmental function accruing to any State, Territory, or the District of

Income
Exempt

Columbia, or any political subdivision of a State or Territory, nor any income accruing to the government of the Philippine Islands or Porto Rico, or of any political subdivision of the Philippine Islands or Porto Rico: *Provided*, That whenever any State, Territory, or the District of Columbia, or any political subdivision of a State or Territory, has, prior to the passage of this title, entered in good faith into a contract with any person or corporation, the object and purpose of which is to acquire, construct, operate, or maintain a public utility, no tax shall be levied under the provisions of this title upon the income derived from the operation of such public utility, so far as the payment thereof will impose a loss or burden upon such State, Territory, or the District of Columbia, or a political subdivision of a State or Territory; but this provision is not intended to confer upon such person or corporation any financial gain or exemption or to relieve such person or corporation from the payment of a tax as provided for in this title upon the part or portion of the said income to which such person or corporation shall be entitled under such contract.

Excep-
tion

Deductions

SEC. 12. (a) In the case of a corporation, joint-stock company or association, or insurance company, organized in the United States, such net income shall be ascertained by deducting from the gross amount of its income received within the year from all sources—

Allowed
on
Income of
Domestic
Corpora-
tions

First. All the ordinary and necessary expenses paid within the year in the maintenance and operation of its business and properties, including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity.

Expenses

Losses

Second. All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) in the case of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made; and (c) in the case of insurance companies, the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and annuity contracts: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments made to increase the value of any property or estate, and no deductions shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided further*, That mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as

No De-
duction
for
Improve-
ments

Mutual
Organiza-
tions

income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them and interest paid upon such amounts between the ascertainment thereof and the payment thereof, the life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year;

Third. *The amount of interest paid within the year on its indebtedness (except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title) to an amount of such indebtedness not in excess of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding. Provided, That for the purpose of this title preferred capital stock shall not be considered interest-bearing indebtedness, and interest or dividends paid upon this stock shall not be deductible from gross income: Provided further, That in cases wherein shares of capital stock are issued without par or nominal value, the amount of paid-up capital stock,*

Deductions,
Domestic
Corporations

Interest

Capital
Stock

Issued
without
par

**Indebted-
ness Se-
cured by
Property**

**Tax-Free
Bonds**

Taxes

**Deductions
Allowed
on Income
of For-
eign Cor-
porations**

within the meaning of this section, as represented by such shares, will be the amount of cash, or its equivalent, paid or transferred to the corporation as a consideration for such shares: Provided further, That in the case of indebtedness wholly secured by property collateral, tangible or intangible, the subject of sale or hypothecation in the ordinary business of such corporation, joint-stock company or association as a dealer only in the property constituting such collateral, or in loaning the funds thereby procured, the total interest paid by such corporation, company, or association within the year on any such indebtedness may be deducted as a part of its expenses of doing business, but interest on such indebtedness shall only be deductible on an amount of such indebtedness not in excess of the actual value of such property collateral: Provided further, That in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed, or any other tax paid pursuant to such guaranty, shall be allowed; and in the case of a bank, banking association, loan or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company shall be deducted;

Fourth. Taxes paid within the year imposed by the authority of the United States (except income and excess profits taxes), or of its Territories, or possessions, or any foreign country, or by the authority of any State, county, school district, or municipality, or other taxing subdivision of any State, not including those assessed against local benefits.

(b) In the case of a corporation, joint-stock company or association, or insurance company, organized, authorized, or existing under the laws of any foreign country, such net income shall be ascertained by de-

ducting from the gross amount of its income received within the year from all sources within the United States—

First. All the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States, including rentals or other payments required to be made as a condition to the continued use or possession of property to which the corporation has not taken or is not taking title, or in which it has no equity. **Business Expenses**

Second. All losses actually sustained within the year in business or trade conducted by it within the United States and not compensated by insurance or otherwise, including a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business or trade; (a) and in the case (a) of oil and gas wells a reasonable allowance for actual reduction in flow and production to be ascertained not by the flush flow, but by the settled production or regular flow; (b) in the case of mines a reasonable allowance for depletion thereof not to exceed the market value in the mine of the product thereof which has been mined and sold during the year for which the return and computation are made, such reasonable allowance to be made in the case of both (a) and (b) under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided*, That when the allowance authorized in (a) and (b) shall equal the capital originally invested, or in case of purchase made prior to March first, nineteen hundred and thirteen, the fair market value as of that date, no further allowance shall be made; and (c) in the case of insurance companies, the net addition, if any, required by law to be made within the year to reserve funds and the sums other than dividends paid within the year on policy and an- **Losses**

nuity contracts: *Provided*, That no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate, and no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made: *Provided further*, That mutual fire and mutual employers' liability and mutual workmen's compensation and mutual casualty insurance companies requiring their members to make premium deposits to provide for losses and expenses shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves: *Provided further*, That mutual marine insurance companies shall include in their return of gross income gross premiums collected and received by them less amounts paid for reinsurance, but shall be entitled to include in deductions from gross income amounts repaid to policyholders on account of premiums previously paid by them, and interest paid upon such amounts between the ascertainment thereof and the payment thereof, and life insurance companies shall not include as income in any year such portion of any actual premium received from any individual policyholder as shall have been paid back or credited to such individual policyholder, or treated as an abatement of premium of such individual policyholder, within such year;

Interest

Third. *The amount of interest paid within the year on its indebtedness (except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title)*

to an amount of such indebtedness not in excess of the proportion of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of the capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding, which the gross amount of its income for the year from business transacted and capital invested within the United States bears to the gross amount of its income derived from all sources within and without the United States: Provided, That in the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed or any other tax paid pursuant to such guaranty shall be allowed; and in case of a bank, banking association, loan or trust company, or branch thereof, interest paid within the year on deposits by or on moneys received for investment from either citizens or residents of the United States and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company, or branch thereof;

*Fourth. Taxes paid within the year imposed by the au- Taxes
thority of the United States (except income and excess,
profits taxes), or of its Territories, or possessions, or by the
authority of any State, county, school district, or munici-
pality, or other taxing subdivision of any State, paid within
the United States, not including those assessed against
local benefits.*

*(c) In the case of assessment insurance companies Insurance
whether domestic or foreign, the actual deposit of Com-
sums with State or Territorial officers, pursuant to law, panies
as additions to guarantee or reserve funds shall be
treated as being payments required by law to reserve
funds.*

Returns

Tax Year **SEC. 13.** (a) The tax shall be computed upon the net income, as thus ascertained, received within each preceding calendar year ending December thirty-first: *Provided*, That any corporation, joint-stock company or association, or insurance company, subject to this tax, may designate the last day of any month in the year as the day of the closing of its fiscal year and shall be entitled to have the tax payable by it computed upon the basis of the net income ascertained as herein provided for the year ending on the day so designated in the year preceding the date of assessment instead of upon the basis of the net income for the calendar year preceding the date of assessment; and it shall give notice of the day it has thus designated as the closing of its fiscal year to the collector of the district in which its principal business office is located at any time not less than thirty days prior to the first day of March of the year in which its return would be filed if made upon the basis of the calendar year;

Fiscal Year

Returns of Corporations (b) Every corporation, joint-stock company or association, or insurance company, subject to the tax herein imposed, shall, on or before the first day of March, nineteen hundred and seventeen, and the first day of March in each year thereafter, or, if it has designated a fiscal year for the computation of its tax, then within sixty days after the close of such fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, and the close of each such fiscal year thereafter, render a true and accurate return of its annual net income in the manner and form to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, and containing such facts, data, and information as are appropriate and in the opinion of the commissioner

necessary to determine the correctness of the net income returned and to carry out the provisions of this title. The return shall be sworn to by the president, vice president, or other principal officer, and by the treasurer or assistant treasurer. The return shall be made to the collector of the district in which is located the principal office of the corporation, company, or association where are kept its books of account and other data from which the return is prepared, or in the case of a foreign corporation, company, or association, to the collector of the district in which is located its principal place of business in the United States, or if it have no principal place of business, office, or agency in the United States, then to the collector of internal revenue at Baltimore, Maryland. All such returns shall as received be transmitted forthwith by the collector to the Commissioner of Internal Revenue;

(c) In cases wherein receivers, trustees in bankruptcy, or assignees are operating the property or business of corporations, joint-stock companies or associations, or insurance companies, subject to tax imposed by this title, such receivers, trustees, or assignees shall make returns of net income as and for such corporations, joint-stock companies or associations, and insurance companies, in the same manner and form as such organizations are hereinbefore required to make returns, and any income tax due on the basis of such returns made by receivers, trustees, or assignees shall be assessed and collected in the same manner as if assessed directly against the organizations of whose businesses or properties they have custody and control;

Returns
of
Receivers
and
Trustees

(d) A corporation, joint-stock company or association, or insurance company, keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect

its income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make its return upon the basis upon which its accounts are kept, in which case the tax shall be computed upon its income as so returned;

Deduction at Source
Non-Resident Aliens

(e) *All the provisions of this title relating to the tax authorized and required to be deducted and withheld and paid to the officer of the United States Government authorized to receive the same from the income of nonresident alien individuals from sources within the United States shall be made applicable to the tax imposed by subdivision (a) of section ten upon incomes derived from interest upon bonds and mortgages or deeds of trust or similar obligations of domestic or other resident corporations, joint-stock companies or associations, and insurance companies by nonresident alien firms, copartnerships, companies, corporations, joint-stock companies or associations, and insurance companies, not engaged in business or trade within the United States and not having any office or place of business therein.*

(f) Likewise, all the provisions of this title relating to the tax authorized and required to be deducted and withheld and paid to the officer of the United States Government authorized to receive the same from the income of nonresident alien individuals from sources within the United States shall be made applicable to income derived from dividends upon the capital stock or from the net earnings of domestic or other resident corporations, joint-stock companies or associations, and insurance companies by nonresident alien companies, corporations, joint-stock companies or associations, and insurance companies not engaged in business or trade within the United States and not having any office or place of business therein.

Assessment and Administration

SEC. 14. (a) All assessments shall be made and the several corporations, joint-stock companies or associations, and insurance companies shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessment shall be paid on or before the fifteenth day of June: *Provided*, That every corporation, joint-stock company or association, and insurance company, computing taxes upon the income of the fiscal year which it may designate in the manner hereinbefore provided, shall pay the taxes due under its assessment within one hundred and five days after the date upon which it is required to file its list or return of income for assessment; except in cases of refusal or neglect to make such return, and in cases of erroneous, false, or fraudulent returns, in which cases the Commissioner of Internal Revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as provided for in this title or by existing law; and the assessment made by the Commissioner of Internal Revenue thereon shall be paid by such corporation, joint-stock company or association, or insurance company immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the fifteenth day of June in any year, or after one hundred and five days from the date on which the return of income is required to be made by the taxpayer, and after ten days' notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid and interest at the rate of one per centum per month upon said tax from the time the same becomes due: *Provided*, That upon the examination of any return of income made pursuant to

When
Tax is
Payable

Return
of Tax
Paid in
Excess of
Amount
Due

this title, the Act of August fifth, nineteen hundred and nine, entitled, "An Act to provide revenue, equalize duties and encourage the industries of the United States, and for other purposes", and the Act of October third, nineteen hundred and thirteen, entitled, "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes", if it shall appear that amounts of tax have been paid in excess of those properly due, the taxpayer shall be permitted to present a claim for refund thereof notwithstanding the provisions of section thirty-two hundred and twenty-eight of the Revised Statutes;

Returns
to be
Public
Records

(b) When the assessment shall be made, as provided in this title, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such: *Provided*, That any and all such returns shall be open to inspection only upon the order of the President, under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President: *Provided further*, That the proper officers of any State imposing a general income tax may, upon the request of the governor thereof, have access to said returns or to an abstract thereof, showing the name and income of each such corporation, joint-stock company or association, or insurance company, at such times and in such manner as the Secretary of the Treasury may prescribe;

Penalty

(c) If any of the corporations, joint-stock companies or associations, or insurance companies aforesaid shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint-stock company or association, or insurance company shall

be liable to a penalty of not exceeding \$10,000: *Provided*, That the Commissioner of Internal Revenue shall have authority, in the case of either corporations or individuals, to grant a reasonable extension of time in meritorious cases, as he may deem proper.

(d) That section thirty-two hundred and twenty-five of the Revised Statutes of the United States be, and the same is hereby, amended so as to read as follows:

SEC. 3225. When a second assessment is made in case of any list, statement, or return, which in the opinion of the collector or deputy collector was false or fraudulent, or contained any understatement or undervaluation, no tax collected under such assessment shall be recovered by any suit unless it is proved that the said list, statement, or return was not false nor fraudulent and did not contain any understatement or undervaluation; but this section shall not apply to statements or returns made or to be made in good faith under the laws of the United States regarding annual depreciation of oil or gas wells and mines.

Second
Assessment

Part III.—General Administrative Provisions

SEC. 15. That the word "State" or "United States" when used in this title shall be construed to include any Territory, the District of Columbia, Porto Rico, and the Philippine Islands, when such construction is necessary to carry out its provisions.

SEC. 16. That sections thirty-one hundred and sixty-seven, thirty-one hundred and seventy-two, thirty-one hundred and seventy-three, and thirty-one hundred and seventy six of the Revised Statutes of the United States as amended are hereby amended so as to read as follows:

**Duties
and
Powers
of U. S.
Officials**

SEC. 3167. It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment.

SEC. 3172. Every collector shall, from time to time, cause his deputies to proceed through every part of his district and inquire after and concerning all persons therein who are liable to pay any internal-revenue tax, and all persons owning or having the care and management of any objects liable to pay any tax, and to make a list of such persons and enumerate said objects.

**Duties of
Taxpayers**

SEC. 3173. It shall be the duty of any person, partnership, firm, association, or corporation, made liable to any duty, special tax, or other tax imposed by law, when not otherwise provided for, (1) in case of a special tax, on or before the thirty-first day of July

in each year, (2) in case of income tax on or before the first day of March in each year, or on or before the last day of the sixty-day period next following the closing date of the fiscal year for which it makes a return of its income, and (3) in other cases before the day on which the taxes accrue, to make a list or return, verified by oath, to the collector or a deputy collector of the district where located, of the articles or objects, including the amount of annual income charged with a duty or tax, the quantity of goods, wares, and merchandise, made or sold and charged with a tax, the several rates and aggregate amount, according to the forms and regulations to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, for which such person, partnership, firm, association, or corporation is liable: *Provided*, That if any person liable to pay any duty or tax, or owning, possessing, or having the care or management of property, goods, wares, and merchandise, article or objects liable to pay any duty, tax, or license, shall fail to make and exhibit a list or return required by law, but shall consent to disclose the particulars of any and all the property, goods, wares, and merchandise, articles, and objects liable to pay any duty or tax, or any business or occupation liable to pay any tax as aforesaid, then, and in that case, it shall be the duty of the collector or deputy collector to make such list or return, which, being distinctly read, consented to, and signed and verified by oath by the person so owning, possessing, or having the care and management as aforesaid, may be received as the list of such person: *Provided further*, That in case no annual list or return has been rendered by such person to the collector or deputy collector as required by law, and the person shall be absent from his or her residence or place of business at the time the collector or a deputy collector

shall call for the annual list or return, it shall be the duty of such collector or deputy collector to leave at such place of residence or business, with some one of suitable age and discretion, if such be present, otherwise to deposit in the nearest post office, a note or memorandum addressed to such person, requiring him or her to render to such collector or deputy collector the list or return required by law within ten days from the date of such note or memorandum, verified by oath. And if any person, on being notified or required as aforesaid, shall refuse or neglect to render such list or return within the time required as aforesaid, or whenever any person who is required to deliver a monthly or other return of objects subject to tax fails to do so at the time required, or delivers any return which, in the opinion of the collector, is erroneous, false, or fraudulent, or contains any undervaluation or understatement, or refuses to allow any regularly authorized Government officer to examine the books of such person, firm, or corporation, it shall be lawful for the collector to summon such person, or any other person having possession, custody, or care of books of account containing entries relating to the business of such person, or any other person he may deem proper, to appear before him and produce such books at a time and place named in the summons, and to give testimony or answer interrogatories, under oath, respecting any objects or income liable to tax or the returns thereof. The collector may summon any person residing or found within the State or Territory in which his district lies; and when the person intended to be summoned does not reside and can not be found within such State or Territory, he may enter any collection district where such person may be found and there make the examination herein authorized. And to this end he may there exercise all the authority

which he might lawfully exercise in the district for which he was commissioned: *Provided*, That 'person,' as used in this section, shall be construed to include any corporation, joint-stock company or association, or insurance company when such construction is necessary to carry out its provisions.

SEC. 3176. If any person, corporation, company, or association fails to make and file a return or list at the time prescribed by law, or makes, willfully or otherwise, a false or fraudulent return or list, the collector or deputy collector shall make the return or list from his own knowledge and from such information as he can obtain through testimony or otherwise. Any return or list so made and subscribed by a collector or deputy collector shall be *prima facie* good and sufficient for all legal purposes.

Failure to
Make
Return

If the failure to file a return or list is due to sickness or absence the collector may allow such further time, not exceeding thirty days, for making and filing the return or list as he deems proper.

The Commissioner of Internal Revenue shall assess all taxes, other than stamp taxes, as to which returns or lists are so made by a collector or deputy collector. In case of any failure to make and file a return or list within the time prescribed by law or by the collector, the Commissioner of Internal Revenue shall add to the tax fifty per centum of its amount except that, when a return is voluntarily and without notice from the collector filed after such time and it is shown that the failure to file it was due to a reasonable cause and not to willful neglect, no such addition shall be made to the tax. In case a false or fraudulent return or list is willfully made, the Commissioner of Internal Revenue shall add to the tax one hundred per centum of its amount.

Assess-
ment of
Taxes

The amount so added to any tax shall be collected

at the same time and in the same manner and as part of the tax unless the tax has been paid before the discovery of the neglect, falsity, or fraud, in which case the amount so added shall be collected in the same manner as the tax.

**Receipts
for Taxes**

SEC. 17. That it shall be the duty of every collector of internal revenue, to whom any payment of any taxes is made under the provisions of this title, to give to the person making such payment a full written or printed receipt, expressing the amount paid and the particular account for which such payment was made; and whenever such payment is made such collector shall, if required, give a separate receipt for each tax paid by any debtor, on account of payments made to or to be made by him to separate creditors in such form that such debtor can conveniently produce the same separately to his several creditors in satisfaction of their respective demands to the amounts specified in such receipts; and such receipts shall be sufficient evidence in favor of such debtor to justify him in withholding the amount therein expressed from his next payment to his creditor; but such creditor may, upon giving to his debtor a full written receipt, acknowledging the payment to him of whatever sum may be actually paid, and accepting the amount of tax paid as aforesaid (specifying the same) as a further satisfaction of the debt to that amount, require the surrender to him of such collector's receipt.

**Penalty
for Fail-
ure to
File
Returns**

SEC. 18. *That any person, corporation, partnership, association, or insurance company, liable to pay the tax, make a return or to supply information required under this title, who refuses or neglects to pay such tax, to make such return or to supply such information at the time or times herein specified in each year, shall be liable, except as otherwise specially provided in this title, to a penalty of*

not less than \$20 nor more than \$1,000. Any individual or any officer of any corporation, partnership, association, or insurance company, required by law to make, render, sign, or verify any return or to supply any information, who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this title to be made, shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, in the discretion of the court, with the costs of prosecution: Provided, That where any tax heretofore due and payable has been duly paid by the taxpayer, it shall not be re-collected from any withholding agent required to retain it at its source, nor shall any penalty be imposed or collected in such cases from the taxpayer, or such withholding agent whose duty it was to retain it, for failure to return or pay the same, unless such failure was fraudulent and for the purpose of evading payment.

SEC. 19. The collector or deputy collector shall require every return to be verified by the oath of the party rendering it. If the collector or deputy collector have reason to believe that the amount of any income returned is understated, he shall give due notice to the person making the return to show cause why the amount of the return should not be increased, and upon proof of the amount understated may increase the same accordingly. Such person may furnish sworn testimony to prove any relevant facts, and, if dissatisfied with the decision of the collector, may appeal to the Commissioner of Internal Revenue for his decision under such rules of procedure as may be prescribed by regulation.

Verifica-
tion of
Returns

SEC. 20. That jurisdiction is hereby conferred upon the district courts of the United States for the district within which any person summoned under this title

Summons
to Testify

to appear to testify or to produce books shall reside, to compel such attendance, production of books, and testimony by appropriate process.

SEC. 21. That the preparation and publication of statistics reasonably available with respect to the operation of the income tax law and containing classifications of taxpayers and of income, the amounts allowed as deductions and exemptions, and any other facts deemed pertinent and valuable, shall be made annually by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

SEC. 22. That all administrative, special, and general provisions of law, including the laws in relation to the assessment, remission, collection, and refund of internal-revenue taxes not heretofore specifically repealed and not inconsistent with the provisions of this title, are hereby extended and made applicable to all the provisions of this title and to the tax herein imposed.

Porto
Rico and
Philip-
pine
Islands

SEC. 23. That the provisions of this title shall extend to Porto Rico and the Philippine Islands: *Provided*, That the administration of the law and the collection of the taxes imposed in Porto Rico and the Philippine Islands shall be by the appropriate internal-revenue officers of those governments, and all revenues collected in Porto Rico and the Philippine Islands thereunder shall accrue intact to the general Governments thereof, respectively: *Provided further*, That the jurisdiction in this title conferred upon the district courts of the United States shall, so far as the Philippine Islands are concerned, be vested in the courts of the first instance of said islands: *And provided further*, That nothing in this title shall be held to exclude from the computation of the net income the compensation paid any official by the governments of the District

of Columbia, Porto Rico, and the Philippine Islands, or the political subdivisions thereof.

SEC. 24. That Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," is hereby repealed, except as herein otherwise provided, and except that it shall remain in force for the assessment and collection of all taxes which have accrued thereunder, and for the imposition and collection of all penalties or forfeitures which have accrued or may accrue in relation to any of such taxes, and except that the unexpended balance of any appropriation heretofore made and now available for the administration of such section or any provision thereof shall be available for the administration of this title or the corresponding provision thereof.

Act of
October 3,
1913

SEC. 25. That income on which has been assessed the tax imposed by Section II of the Act entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," approved October third, nineteen hundred and thirteen, shall not be considered as income within the meaning of this title: *Provided*, That this section shall not conflict with that portion of section ten, of this title, under which a taxpayer has fixed its own fiscal year.

Sec. 26. *Every corporation, joint-stock company or association, or insurance company subject to the tax herein imposed, when required by the Commissioner of Internal Revenue, shall render a correct return, duly verified under oath, of its payments of dividends, whether made in cash or its equivalent or in stock, including the names and addresses of stockholders and the number of shares owned by each, and the tax years and the applicable*

Returns
of Pay-
ments of
Divi-
dends

amounts in which such dividends were earned, in such form and manner as may be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

**Returns
of Brokers**

Sec. 27. That every person, corporation, partnership, or association, doing business as a broker on any exchange or board of trade or other similar place of business shall, when required by the Commissioner of Internal Revenue, render a correct return duly verified under oath, under such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, showing the names of customers for whom such person, corporation, partnership, or association has transacted any business, with such details as to the profits, losses, or other information which the commissioner may require, as to each of such customers, as will enable the Commissioner of Internal Revenue to determine whether all income tax due on profits or gains of such customers has been paid.

**Returns
of Payors
of Miscellaneous
Income**

Sec. 28. That all persons, corporations, partnerships, associations, and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, receivers, conservators, and employers, making payment to another person, corporation, partnership, association, or insurance company, of interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable gains, profits, and income (other than payments described in sections twenty-six and twenty-seven), of \$800 or more in any taxable year, or, in the case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, are hereby author-

ized and required to render a true and accurate return to the Commissioner of Internal Revenue, under such rules and regulations and in such form and manner as may be prescribed by him, with the approval of the Secretary of the Treasury, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment: Provided, That such returns shall be required, regardless of amounts, in the case of payments of interest upon bonds and mortgages or deeds of trust or other similar obligations or corporations, joint-stock companies, associations, and insurance companies, and in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest from the bonds and dividends from the stock of foreign corporations by persons, corporations, partnerships, or associations, undertaking as a matter of business or for profit the collection of foreign payments of such interest or dividends by means of coupons, checks, or bills of exchange.

**Returns
of Debtor
Corporations
on Pay-
ments of
Interest
on Bonds**

When necessary to make effective the provisions of this section the name and address of the recipient of income shall be furnished upon demand of the person, corporation, partnership, association, or insurance company paying the income.

**Disclo-
sure of
Owner-
ship of
Income**

The provisions of this section shall apply to the calendar year nineteen hundred and seventeen and each calendar year thereafter, but shall not apply to the payment of interest on obligations of the United States.

**Appli-
cable to
Year 1917**

Sec. 29. That in assessing income tax the net income embraced in the return shall also be credited with the amount of any excess profits tax imposed by Act of Congress and assessed for the same calendar or fiscal year upon the taxpayer, and, in the case of a member of a partnership, with his proportionate share of such excess profits tax imposed upon the partnership.

**Excess
Profits
Tax
Credited**

**Income
Foreign
Govern-
ments
Exempt**

Sec. 30. That nothing in Section II of the Act approved October third, nineteen hundred and thirteen, entitled "An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes," or in this title, shall be construed as taxing the income of foreign governments received from investments in the United States in stocks, bonds, or other domestic securities, owned by such foreign governments, or from interest on deposits in banks in the United States of moneys belonging to foreign governments.

**Distribu-
tion of
Earnings**

Sec. 31. (a) That the term "dividends" as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of the earnings or profits so distributed.

**Rates of
Tax Ap-
plicable to
Divi-
dends**

(b) Any distribution made to the shareholders or members of a corporation, joint-stock company, or association, or insurance company, in the year nineteen hundred and seventeen, or subsequent tax years, shall be deemed to have been made from the most recently accumulated undivided profits or surplus, and shall constitute a part of the annual income of the distributee for the year in which received, and shall be taxed to the distributee at the rates prescribed by law for the years in which such profits or surplus were accumulated by the corporation, joint-stock company, association, or insurance company, but nothing herein shall be construed as taxing any earnings or profits accrued prior to March first, nineteen hundred and thirteen, but such earnings or profits may be distributed in stock dividends or otherwise, exempt from

the tax, after the distribution of earnings and profit accrued since March first, nineteen hundred and thirteen, has been made. This subdivision shall not apply to any distribution made prior to August sixth, nineteen hundred and seventeen, out of earnings or profits accrued prior to March first, nineteen hundred and thirteen.

Sec. 32. That premiums paid on life insurance policies covering the lives of officers, employees, or those financially interested in any trade or business conducted by an individual, partnership, corporation, joint-stock company or association, or insurance company, shall not be deducted in computing the net income of such individual, corporation, joint-stock company or association, or insurance company, or in computing the profits of such partnership for the purposes of subdivision (e) of section nine.

**Insurance
Pre-
miums**

Title I.—War Income Tax

Act of October 3, 1917

**Normal
Tax
Individuals**

SEC. 1. That in addition to the normal tax imposed by subdivision (a) of section one of the Act entitled "An Act to increase the revenue, and for other purposes," approved September eighth, nineteen hundred and sixteen, there shall be levied, assessed, collected, and paid a like normal tax of two per centum upon the income of every individual, a citizen or resident of the United States, received in the calendar year nineteen hundred and seventeen and every calendar year thereafter.

Surtax

SEC. 2. That in addition to the additional tax imposed by subdivision (b) of section one of such Act of September eighth, nineteen hundred and sixteen, there shall be levied, assessed, collected, and paid a like additional tax upon the income of every individual received in the calendar year nineteen hundred and seventeen and every calendar year thereafter, as follows:

One per centum per annum upon the amount by which the total net income exceeds \$5,000 and does not exceed \$7,500;

Two per centum per annum upon the amount by which the total net income exceeds \$7,500 and does not exceed \$10,000;

Three per centum per annum upon the amount by which the total net income exceeds \$10,000 and does not exceed \$12,500;

Four per centum per annum upon the amount by which the total net income exceeds \$12,500 and does not exceed \$15,000;

Five per centum per annum upon the amount by which the total net income exceeds \$15,000 and does not exceed \$20,000;

Seven per centum per annum upon the amount by

which the total net income exceeds \$20,000 and does not exceed \$40,000;

Ten per centum per annum upon the amount by which the total net income exceeds \$40,000 and does not exceed \$60,000;

Fourteen per centum per annum upon the amount by which the total net income exceeds \$60,000 and does not exceed \$80,000;

Eighteen per centum per annum upon the amount by which the total net income exceeds \$80,000 and does not exceed \$100,000;

Twenty-two per centum per annum upon the amount by which the total net income exceeds \$100,000 and does not exceed \$150,000;

Twenty-five per centum per annum upon the amount by which the total net income exceeds \$150,000 and does not exceed \$200,000;

Thirty per centum per annum upon the amount by which the total net income exceeds \$200,000 and does not exceed \$250,000;

Thirty-four per centum per annum upon the amount by which the total net income exceeds \$250,000 and does not exceed \$300,000;

Thirty-seven per centum per annum upon the amount by which the total net income exceeds \$300,000 and does not exceed \$500,000;

Forty per centum per annum upon the amount by which the total net income exceeds \$500,000 and does not exceed \$750,000;

Forty-five per centum per annum upon the amount by which the total net income exceeds \$750,000 and does not exceed \$1,000,000;

Fifty per centum per annum upon the amount by which the total net income exceeds \$1,000,000.

SEC. 3. That the taxes imposed by sections one and two of this Act shall be computed, levied, assessed, Collec- tion

**Specific
Exemption**

collected, and paid upon the same basis and in the same manner as the similar taxes imposed by section one of such Act of September eighth, nineteen hundred and sixteen, except that in the case of the tax imposed by section one of this Act (a) the exemptions of \$3,000 and \$4,000 provided in section seven of such Act of September eighth, nineteen hundred and sixteen, as amended by this Act, shall be, respectively, \$1,000 and \$2,000, and (b) the returns required under subdivisions (b) and (c) of section eight of such Act as amended by this Act shall be required in the case of net incomes of \$1,000 or over, in the case of unmarried persons, and \$2,000 or over in the case of married persons, instead of \$3,000 or over, as therein provided, and (c) the provisions of subdivision (c) of section nine of such Act, as amended by this Act, requiring the normal tax of individuals on income derived from interest to be deducted and withheld at the source of the income shall not apply to the new two per centum normal tax prescribed in section one of this Act until on and after January first, nineteen hundred and eighteen, and thereafter only one two per centum normal tax shall be deducted and withheld at the source under the provisions of such subdivision (c), and any further normal tax for which the recipient of such income is liable under this Act or such Act of September eighth, nineteen hundred and sixteen, as amended by this Act, shall be paid by such recipient.

Corporations

SEC. 4. That in addition to the tax imposed by subdivision (a) of section ten of such Act of September eighth, nineteen hundred and sixteen, as amended by this Act, there shall be levied, assessed, collected, and paid a like tax of four per centum upon the income received in the calendar year nineteen hundred and seventeen and every calendar year thereafter, by every corporation, joint-stock company or association, or insurance company, subject to the tax imposed by that

**Rate of
Tax**

subdivision of that section, except that if it has fixed its own fiscal year, the tax imposed by this section for the fiscal year ending during the calendar year nineteen hundred and seventeen shall be levied, assessed, collected, and paid only on that proportion of its income for such fiscal year which the period between January first, nineteen hundred and seventeen, and the end of such fiscal year bears to the whole of such fiscal year.

Fiscal
Year

The tax imposed by this section shall be computed, levied, assessed, collected, and paid upon the same incomes and in the same manner as the tax imposed by subdivision (a) of section ten of such Act of September eighth, nineteen hundred and sixteen, as amended by this Act, except that for the purpose of the tax imposed by this section the income embraced in a return of a corporation, joint-stock company or association, or insurance company, shall be credited with the amount received as dividends upon the stock or from the net earnings of any other corporation, joint-stock company or association, or insurance company, which is taxable upon its net income as provided in this title.

Collection

Dividend

SEC. 5. That the provisions of this title shall not extend to Porto Rico or the Philippine Islands, and the Porto Rican or Philippine Legislature shall have power by due enactment to amend, alter, modify, or repeal the income tax laws in force in Porto Rico or the Philippine Islands, respectively.

Porto
Rico and
Philippines

Title X.—Administrative Provisions

SEC. 1001. That all administrative, special, or stamp provisions of law, including the law relating to the assessment of taxes, so far as applicable, are hereby extended to and made a part of this Act, and every person, corporation, partnership, or association liable to any tax imposed by this Act, or for the collection

Administrative
Provisions
of Law
Applicable

thereof, shall keep such records and render, under oath, such statements and returns, and shall comply with such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may from time to time prescribe.

**Penalty
for Fail-
ure to
Make
Return**

SEC. 1004. That whoever fails to make any return required by this Act or the regulations made under authority thereof within the time prescribed or who makes any false or fraudulent return, and whoever evades or attempts to evade any tax imposed by this Act or fails to collect or truly to account for and pay over any such tax, shall be subject to a penalty of not more than \$1,000, or to imprisonment for not more than one year, or both, at the discretion of the court, and in addition thereto a penalty of double the tax evaded, or not collected, or accounted for and paid over, to be assessed and collected in the same manner as taxes are assessed and collected, in any case in which the punishment is not otherwise specifically provided.

SEC. 1005. That the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, is hereby authorized to make all needful rules and regulations for the enforcement of the provisions of this Act.

**Payment
in Install-
ments**

SEC. 1009. That the Secretary of the Treasury, under rules and regulations prescribed by him, shall permit taxpayers liable to income and excess profits taxes to make payments in advance in installments or in whole of an amount not in excess of the estimated taxes which will be due from them, and upon determination of the taxes actually due any amount paid in excess shall be refunded as taxes erroneously collected: *Provided*, That when payment is made in installments at least one-fourth of such estimated tax shall be paid before the expiration of thirty days after the close of

the taxable year, at least an additional one-fourth within two months after the close of the taxable year, at least an additional one-fourth within four months after the close of the taxable year, and the remainder of the tax due on or before the time now fixed by law for such payment: *Provided further*, That the Secretary of the Treasury, under rules and regulations prescribed by him, may allow credit against such taxes so paid in advance of an amount not exceeding three per centum per annum calculated upon the amount so paid from the date of such payment to the date now fixed by law for such payment; but no such credit shall be allowed on payments in excess of taxes determined to be due, nor on payments made after the expiration of four and one-half months after the close of the taxable year. All penalties provided by existing law for failure to pay tax when due are hereby made applicable to any failure to pay the tax at the time or times required in this section.

SEC. 1010. That under rules and regulations prescribed by the Secretary of the Treasury, collectors of internal revenue may receive, at par and accrued interest, certificates of indebtedness issued under section six of the Act entitled "An Act to authorize an issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes," approved April twenty-fourth, nineteen hundred and seventeen, and any subsequent Act or Acts, and uncertified checks in payment of income and excess-profits taxes, during such time and under such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe; but if a check so received is not paid by the bank on which it is

U. S.
Certificates of
Indebted-
ness in
Payment

drawn the person by whom such check has been tendered shall remain liable for the payment of the tax and for all legal penalties and additions the same as if such check had not been tendered.

**Refund
of Tax
Withheld**

SEC. 1212. That any amount heretofore withheld by any withholding agent as required by Title I of such Act of September eighth, nineteen hundred and sixteen, on account of the tax imposed upon the income of any individual, a citizen or resident of the United States, for the calendar year nineteen hundred and seventeen, except in the cases covered by subdivision (c) of section nine of such Act, as amended by this Act, shall be released and paid over to such individual, and the entire tax upon the income of such individual for such year shall be assessed and collected in the manner prescribed by such Act as amended by this Act.

Title XIII.—General Provisions

**Provi-
sions
Deemed
Separable**

SEC. 1300. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of said Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

**Effective
Date of
Act**

SEC. 1302. That unless otherwise herein specially provided, this Act shall take effect on the day following its passage.

Form 1000.

Revised January, 1918.

U. S. INTERNAL REVENUE.

OWNERSHIP CERTIFICATE—TAX TO BE PAID AT SOURCE **INTEREST ON BONDS OF DOMESTIC AND RESIDENT CORPORATIONS**

Names must be printed
or written plainly.

DEBTOR ORGANIZATION

OWNER OF BONDS (Give name in full)

Name

Name

Address

Address

I CERTIFY that the owner of the bonds from which the interest entered herein was derived falls within the class of persons or organizations opposite which such interest is entered, and that exemption is not claimed from having the normal tax paid at the source on the amount of interest reported.

Signature of owner
or agent.

Address
of agent.

This form must be used by debtor organizations to report payments of interest on negotiable bonds when such payments are not covered by ownership certificates made by owners of bonds. When so used, the form must be signed, but must bear the name and address of the debtor organization.

If payee is an individual, is he married? If not, is he head of a family?

OWNER

Citizen or Resident of United States:

1 Individual or fiduciary*

Non-Resident Alien:

2 Individual or fiduciary*

3 Corporation having no office or place of business in the United States.

Unknown:

4 *Coupons received not accompanied by ownership certificates (see note below)

INTEREST ON BONDS—

Containing tax-free-covenant clauses (personal exemption not claimed)

Whether or not containing tax-free-covenant clauses

Whether or not containing tax-free-covenant clauses

Whether or not containing tax-free-covenant clauses

AMOUNT

\$

\$

\$

\$

* Fiduciaries must enter under "Owner of Bonds" the name of estate, trust, or beneficiary on behalf of whom this certificate is made. If bonds are owned jointly, separate forms must be used by each joint owner.

† If owner of bonds is unknown, certificate must be made by first bank which will enter amount of interest on line 4 and name and address of payee in space provided for "Owner of Bonds," striking out the word "Owner" and inserting "Payee."

Form 1001.
Revised January, 1918.
U. S. INTERNAL REVENUE.

OWNERSHIP CERTIFICATE—TAX NOT TO BE PAID AT SOURCE **INTEREST ON BONDS OF DOMESTIC AND RESIDENT CORPORATIONS**

Names must be printed
or written plainly.

DEBTOR ORGANIZATION

OWNER OF BONDS (Give name in full)

Name.....

Name.....

Address.....

Address.....

I CERTIFY that the owner of the bonds from which the interest entered herein was derived falls within the class of persons or organizations opposite which such interest is entered and is entitled to the interest reported without deduction of any tax.

Signature of owner
or Agent

Address
of Agent

If the interest on bonds containing tax-free-covenant clauses is received by a citizen or resident individual or fiduciary exceeds the amount of exemption which he desires to claim, such excess should be reported on Form 1000.

If owner is an individual, is he married? If not, is he head of a family?

OWNER	INTEREST ON BONDS—		AMOUNT
	Citizen or Resident of United States:	Containing tax-free-covenant clauses (personal exemption claimed)	
1 Individual or fiduciary*			\$.....
2 Individual or fiduciary*		Not containing tax-free-covenant clauses (not subject to withholding)	\$.....
3 Partnership, corporation or association		Whether or not containing tax-free-covenant clauses (not subject to withholding)	\$.....
Non-resident Alien:		Whether or not containing tax-free-covenant clauses (not subject to withholding)	\$.....
4 Partnership		Whether or not containing tax-free-covenant clauses (not subject to withholding)	\$.....
5 Corporation having an office or place of business in the United States		Whether or not containing tax-free-covenant clauses (not subject to withholding)	\$.....

* Fiduciaries must enter under "Owner of Bonds" the name of estate, trust, or beneficiary on behalf of whom exemption is claimed. If bonds are owned jointly, separate forms must be used by each joint owner.

Ownership Certificate—DISCLOSING ACTUAL OWNER OF STOCK.

(For use of foreign principal—individual, firm or organization—to be filed with representative in the United States of each foreign principal to disclose actual ownership of stock of domestic corporation.)

.....
(Name of record owner)

.....
(Full Post-Office Address of record owner)

.....
(Name of issuing corporation)

.....
(Address of issuing corporation)

Number of shares stock owned

Class of stock

(Common, Preferred, etc.)

I (we) hereby declare that I am (we are) the actual owner- of the above described stock or that the record owner of said stock holds it for my (our) account and the actual owner is.....
(Name)

.....
(Address)

That I am (we are) or the actual owner- is (are) non-resident alien- as to the United States; that the record owner of said stock is correctly listed above and that the said record owner is the representative in the United States of the undersigned with respect to said stock; and that all the information given herein is true and correct

Date, 19.....

.....
(Signature of actual owner, or, if organization, name for which record owner acts.)

By

.....
(If organization, signature of official authorized to sign, and official position.)

.....
(Full Post-Office Address of actual owner, or person, firm or corporation for whom or which record owner acts.)

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U.S. GOVERNMENT,
WASHINGTON, D.C.

MAY 9 1918







